

Message Text

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ACTION EB-07

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TO SECSTATE WASHDC IMMEDIATE 7663

INFO AMEMBASSY BELGRADE

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AMEMBASSY BUENOS AIRES

AMEMBASSY CAIRO

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AMCONSUL DOUALA BY POUCH

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C O R R E C T E D C O P Y (MRN SHOULD READ 0357 VICE 0359)

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TAGS: EFIN, ENRG, CIEC, CM

SUBJ: CIEC: IMPACT OF HIGHER NUL PRICES ON ECONOMIC DEVELOPMENT

REF: STATE 6381

1. SUMMARY. HIGHER OIL PRICES HAVE SLOWED BUT THUS FAR NOT SER-
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IOUSLY DISABLED CAMEROON'S ECONOMIC STATUS AND DEVELOPMENT.

IN 1973 AND 1974, CAMEROON ENJOYED GOOD PRICES FOR ITS EXPORTS -- COFFEE, COCOA WLAABOUT 60 PERCENT OF TOTAL EXPORT REVENUE). TIMBER EXPORTS ALSO WERE GOOD REVENUE EARNERS UNTIL LATE 1973. AS A RESULT OF GOOD EXPORT REVENUE AND DELAY IN PRICE INCREASES BY GABON WHICH PROVIDES ABOUT 60 PERCENT OF ITS PETROLEUM IMPORTS, CAMEROON HAD A BALANCE OF PAYMENT (BOP) SURPLUS OF ABOUT DOLS 15 MILLION IN 1974 IN SPITE OF A 233 PERCENT INCREASE IN COST OF PETROLEUM. SECOND, CAMEROON ENJOYS GOOD HYDROELECTRIC POWER RESOURCES AND HAS BEEN ABLE TO CONTROL PETROLEUM IMPORTS MORE SUCCESSFULLY PERHAPS THAN OTHER COUNTRIES (DOWN 3 PERCENT IN 1974 FROM 1973 IN SPITE OF INDUSTRIAL EXPANSION). THIRD, DUE TO ITS BASICALLY CONSERVATIVE FISCAL POLICIES, CAMEROON WAS ABLE TO DRAW DOWN FOREIGN RESERVES AND INCREASE BORROWING WITHOUT INCURRING A SERIOUS FOREIGN DEBT BURDEN. DURING 1975, HOWEVER, CAMEROON'S BALANCE OF PAYMENTS POSITION PROBABLY SUFFERED ITS WORST DEFICIT IN HISTORY DUE TO INCREASED COSTS FOR GOODS NEEDED FOR DEVELOPMENT AND DECREASED PRICES FOR ITS MAJOR EXPORTS. THE ESTIMATED BOP DEFICIT FOR 1975 MAY BE AS HIGH AS DOLS 136 MILLION. GURC, HOWEVER, TOOK SEVERE MEASURES TO HOLD IT DOWN, AND IF THESE MEASURES PROVE TO BE EFFECTIVE, THE DEFICIT COULD BE MUCH LOWER (LOWEST EST DOLS 40 MILLION). FOR THE FUTURE, CAMEROON IS RELYING ON INCREASING PRICES FOR ITS MAIN EXPORTS OF COCOA, COFFEE AND TIMBER (HIGHLY PROBABLE) AND THE DEVELOPMENT OF ITS OWN PETROLEUM RESOURCES (PRODUCTION POSSIBLE IN 1977), TO SUSTAIN IT WHILE ACTIVELY ENCOURAGING FOREIGN INVESTMENT FOR THE DEVELOPMENT OF ITS AGROINDUSTRIAL BASE.

2. PETROLEUM STATISTICS - CAMEROON PETROLEUM IMPORTS FOR THE LAST THREE YEARS ARE AS FOLLOWS:

1972	329926 METRIC TONS	DOLS 15,810,350 (255 FCFA EQLS DOLS 1)
1973	337806 METRIC TONS	DOLS 18,345,100 (230 FCFA EQUALS DOLS 1)
1974	327554 METRIC TONS	DOLS 42,830,230 (220 FCFA EQUALS DOLS 1)

COMPLETE FIGURES FOR 1975 ARE NOT YET AVAILABLE, BUT BASED ON FIRST EIGHT MONTHS, CAMEROON EXPECTS ABOUT A 15 PERCENT INCREASE IN THE VOLUME OF ITS PETROLEUM - AN ESTIMATED DOLS 48,790,900.

3. IMPACT ON DOMESTIC ECONOMY - IMPACT OF OIL PRICE INCREASE HAS BEEN MORE INDIRECT THAN DIRECT. DIRECT IMPACT HAS BEEN ON IN-LIMITED OFFICIAL USE

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CREASED TRANSPORT COSTS AND COSTS OF FUEL FOR POWER STATIONS. BIGGEST PROBLEM, HOWEVER, HAS BEEN INDIRECT EFFECT ON INCREASED COSTS FOR IMPORTS AND WORLD WIDE RECESSION. MOST IMPORTANT PERHAPS HAS BEEN IMPACT OF INCREASED COSTS OF FERTILIZERS AND INSECTICIDES NEEDED FOR QUALITATIVE AND QUANTITATIVE EXPANSION OF EXPORT CROPS (COFFEE AND COCOA) AND FOOD PRODUCTION TO OFFSET IMPORTS AND FOR EXPORT TO ADJACENT STATES. PRICES FOR COFFEE AND COCOA, HOWEVER, HAVE DECLINED. TIMBER INDUSTRY IS STAGNANT THUS

LOWERING EARNINGS FROM EXPORTS, SLOWING DEVELOPMENT OF CAMEROON'S MAJOR TIMBER RESOURCES, AND INCREASING UNEMPLOYMENT. IN SPITE OF MODERATELY SUCCESSFUL PRICE SUPPORT PROGRAMS (DOLS 227.3 MILLION IN SUBSIDIES), AVERAGE CAMEROONIAN IS FEELING PINCH OF INFLATION AND GURC WILL PROBABLY HAVE TO OKAY WAGE HIKE THIS YEAR, THUS FUELING INFLATION. INFLATION IN CITIES IS IN EXCESS OF 20 PERCENT. INDUSTRIAL EXPANSION IS CONTINUING, BUT INCREASED EQUIPMENT COSTS HAVE SLOWED DEVELOPMENT. CAPITAL INVESTMENT (LONG TERM) HOWEVER CONTINUED STEADY INCREASE (DOLS 146.8 MILLION IN 1974).

4. IMPACT ON DEVELOPMENT - BASIC IMPACT ON DEVELOPMENT HAS BEEN THAT DUE TO DRAWDOWN IN RESERVES AND INCREASED COSTS, SOME PROJECTS WHICH GURC HAD PLANNED TO SELF-FINANCE MUST NOW BE FINANCED BY EXTERNAL FINANCIAL SOURCES OTHER PROJECTS NEEDED BUT NOT SUITED TO COMMERCIAL FINANCING ARE BEING POSTPONED. SOFT FINANCING FROM INTERNATIONAL ORGANIZATIONS IS BEING USED FOR INFRASTRUCTURE DEVELOPMENT, BUT THERE IS SIMPLY NOT ENOUGH AVAILABLE. GURC WILL HAVE TO INCREASE COMMERCIAL BORROWING FOR NECESSARY DEVELOPMENT PROJECTS WHICH WILL SUBSTANTIALLY INCREASE DEBT LEVEL (PRESENT DEBT SERVICE RATIO - 5 TO 7 PERCENT, PROBABLE INCREASE TO 12 TO 15 PERCENT IN NEXT FEW YEARS). WHILE GURC IS PUSHING HARD FOR FOREIGN INVESTMENT, IT WILL PROBABLY BEGIN TO LIMIT REPATRIATION OF FUNDS WHICH UP UNTIL NOW HAS BEEN QUITE LIBERAL.

5. ENERGY - DEVELOPMENT OF CAMEROON'S ENERGY RESOURCES IN NEXT FIVE YEARS SHOULD SUBSTANTIALLY EASE BOP PROBLEMS. CAMEROON HAS SUBSTANTIAL HYDROELECTRIC POWER RESOURCES PRESENTLY COVERING ABOUT 80 PERCENT OF ENERGY CONSUMPTION. COMPLETION OF TWO DAM PROJECTS NOW BEING STARTED (LAGDO DAM - PRC PROJECT WITH CONCESSIONAL TERMS, SONG LOULOU - COMMERCIAL FINANCING) WILL PROVIDE FOR EXPANSION OF LOCAL PROCESSING INDUSTRIES (BAUXITE ESPECIALLY), DEVELOPMENT OF TIMBER INDUSTRY WITH PROCESSING, AND DECREASE LIMITED OFFICIAL USE

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PETROLEUM IMPORTS FOR POWER PLANTS. CAMEROON HAS PETROLEUM RESERVES WHICH SHOULD BE IN PRODUCTION IN 1977 AND, HOPEFULLY, SELF SUFFICIENT BY 1978. GIVEN OPTIMUM SITUATION UNDER PRESENT BEST QUESTIMATES, CAMEROON MAY BECOME PETROLEUM EXPORTER.

6. FUTURE - GIVEN ITS HYDROELECTRIC RESOURCES, POSSIBLE PETROLEUM RESOURCES, TIMBER RESOURCES AND STEADY DEVELOPMENT OF ITS AGRO-INDUSTRIAL BASE, CAMEROON IS IN FAIRLY GOOD SHAPE. PRICES FOR COFFEE AND COCOA SHOULD INCREASE THIS YEAR, AND WITH RESURGENCE OF TIMBER MARKET, CAMEROON CAN LOOK FORWARD TO SMALLER DEFICIT IN 1976 (EST DOLS 27 MILLION). FOREIGN INVESTMENT IS INCREASING, AND FOREIGN DEBT IS AT A MANAGEABLE LEVEL. DIVERSIFICATION AND DEVELOPMENT OF ITS AGROINDUSTRIAL BASE TOWARDS INCREASED FOOD PRODUCTION AND PROCESSING SHOULD ALSO PROVIDE INCREASING SOURCE OF REVENUE. THUS FAR, GURC HAS MAINTAINED BASICALLY CONSERVATIVE

FISCAL POLICIES AND ALL INDICATIONS ARE THAT IT WILL CONTINUE TO DO SO. DEVELOPMENT WILL BE SLOWED, BUT ATTRACTIVENESS TO FOREIGN INVESTMENT SHOULD CONTINUE.

7. GURC PERCEPTIONS - BASICALLY, GURC FINANCIAL LEADERSHIP IS YOUNG, WELL TRAINED, COMPETENT, AND REALISTIC. IT IS FULLY AWARE OF EFFECT OF HIGH OIL PRICES ON WORLD ECONOMY AND SUBSEQUENT EFFECT ON THEIR ECONOMY. HOWEVER, IT APPARENTLY FEELS THAT OPEC IS JUSTIFIED IN CLAIMING DUE COMPENSATION FOR THEIR VALUABLE RESOURCES AND THAT THE INDUSTRIALIZED WORLD (RECESSION AND ALL) WILL HAVE TO LEARN TO LIVE WITH MORE SHARING OF THE WEALTH WITH PRIMARY PRODUCERS. OBVIOUSLY GURC PERCEPTIONS ARE COLORED BY THE

POSSIBILITY OF BECOMING AN OIL EXPORTER. BUT MORE IMPORTANTLY, IT VIEWS THE CIEC AS AN OPPORTUNITY FOR NEGOTIATING A MORE EQUITABLE ECONOMIC ORDER AND GURC WILL PUSH FOR GREATER ACCESS TO MARKETS, MORE FINANCIAL ASSISTANCE FOR DEVELOPMENT (INCLUDING FROM THE ARABS) AND INDEXATION TO PREVENT THE INDUSTRIALIZED COUNTRIES FROM PASSING THEIR INFLATION ON TO PRIMARY PRODUCERS.

8. POST APOLOGIZES FOR LATE REPORT, BUT JUST OBTAINED 1974 BOP DATA. FOR MORE DETAILS ON PETROLEUM DEVELOPMENTS, SEE DOUALA'S A-16 DECEMBER 17, 1975 AND A-3 JANUARY 14, 1976. SPIRO

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